

**JLAC Hearing**  
**May 27, 2009**

***Analysis Fact Sheet***

**Requesters:** Senators Lowenthal and Huff

**Subject:** California High-Speed Rail Authority

**Job No.:** 2009-106

**Request Date:** May 11, 2009

**Requested Completion Date:** Not specified.

**Total Budget of the High-Speed Rail Authority:** \$125 Million

**Scope of Request:** ☐ Local ☐ Regional ☒ Statewide

**Other Work Within the General Area:**

None.

**Estimated Cost:** \$168,300

**Estimated Hours:** 1,870

**ANALYSIS OF AUDIT REQUEST**  
**2009-106**  
**May 27, 2009**

**I. AUDIT REQUEST**

Senators Lowenthal and Huff are requesting an audit of the California High-Speed Rail Authority (Authority) to assess its readiness to manage the billions of dollars in general obligation bonds the voters authorized in November 2008 to build this major infrastructure project.

**II. BACKGROUND**

In 1996 the State established the Authority to plan and contract to design, build, and operate an intercity high-speed rail system that would serve California's major population centers—Sacramento, the San Francisco Bay Area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego.

The Authority has a nine-member board, appointed by the Legislature and the governor, and a small core staff to support its operations and administration. Over the past 10 years, the Authority reports that it has completed a variety of studies and engaged in public and legislative debate in preparing for the high-speed rail system. Current cost estimates to build this infrastructure project is about \$45 billion. According to the Authority's November 2008 Business Plan, the high-speed rail is poised to move toward construction.

In November 2008 voters approved Proposition 1A, which allows the State to sell almost \$10 billion in general obligation bonds for pre-construction and construction activities of the high-speed rail system. The bond proceeds are also intended to fund capital improvements of passenger rail systems to connect with the high-speed rail system. In general, approximately \$9 billion of the bond funds may be used to provide 50 percent of the cost of construction, the remaining 50 percent must come from other federal, state, local, or private sources.

Proposition 1A places other requirements on the project, including identifying the first phase of the rail project as the corridor between San Francisco and Los Angeles and Anaheim; allowing up to 10 percent of the bond funds to be used for environmental reviews, planning, preliminary engineering, and design; and limiting administrative costs to 2.5 percent.

In addition to the nearly \$10 billion in Proposition 1A general obligation bonds, California's high-speed rail is one of 10 projects eligible to receive a portion of the approximately \$8 billion in American Recovery and Reinvestment Act funds this year and a portion of the additional \$5 billion the federal government plans to allocate over the course of the next five years.

The Authority uses private sector contractors for nearly all of its work. According to the Legislative Analyst, the governor's 2009–10 budget requests \$125.2 million in Proposition 1A bond money to fund the Authority's activities, \$123 million for consultant contracts, and the remainder for administrative costs. The consultant contracts include services such as project-level design and environmental review, program management services, financial planning and a public-private partnership program, and new ridership and revenue forecasts.

The Senators are requesting the audit because they believe it is important to have an independent review of the Authority's systems for managing such a complex enterprise.

### **III. AUDIT SCOPE AND OBJECTIVES**

The audit by the Bureau of State Audits will provide independently developed and verified information related to the Authority, will include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Determine if the Authority is structured to administer and manage the bond proceeds and any other funding in compliance with applicable laws, rules, and regulations. In addition, assess whether its processes and controls are transparent, provide accountability, and ensure the cost-effective use of public resources.
3. Identify the steps the Authority's governing board has taken to establish a process for strong project oversight. Assess whether such a process is



appropriate and sufficient for ensuring issues are raised and addressed regularly and ensuring that the scope, budget, and schedule for each project is on track.

4. Review and evaluate the Authority's strategic plan to determine if its goals and objectives are reasonable. Assess how management is measuring its performance and whether the Authority is meeting its goals and objectives.
5. Identify the Authority's funding sources for all major contracts over the past three years.
6. Evaluate the Authority's contracting procedures and practices for awarding, managing, and monitoring contracts, including procedures to determine the need for contract services, to select contractors, and to measure the performance of contractors.
7. Determine the Authority's controls to ensure the appropriateness and accuracy of contract payments. Further, review a sample of contracts and paid invoices to ensure they comply with applicable policies, procedures, and controls.
8. Identify the Authority's expenditures over the past three years. For a sample of these expenditures, determine if they were reasonable and align with the goals and objectives of the Authority.
9. Review and assess any other issues that are significant to the effective and efficient management of the resources of the Authority.

#### **IV. OTHER WORK IN THE GENERAL AREA**

None

#### **V. RESOURCE REQUIREMENTS**

We estimate that this audit would require approximately 1,870 hours of audit work at a cost of approximately \$168,300 plus travel and administrative expenses and the possible costs related to an outside consultant, if necessary. We will conduct this audit using our existing budget authority to the extent funding is available for audits approved by the Joint Legislative Audit Committee.

**VI. REQUIRED DATE OF COMPLETION**

Senators Lowenthal and Huff did not request a completion date for this audit.



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ELAINE M. HOWLE, CPA  
State Auditor

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May 11, 2009

Honorable Alyson L. Huber, Chair  
Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, California 95814

2009-106

Dear Ms. Huber:

Last November, California voters approved the Safe, Reliable High-Speed Rail Bond Act, which authorizes the sale of up to \$9 billion in general obligation bonds for the California high-speed rail project. During the ten years preceding the approval of the bonds, the California High-Speed Rail Authority (HSRA) prepared program environmental review documents for the corridors in which it intends to operate service. In addition, the HSRA retained a firm to manage the entire program as well as several engineering firms to prepare corridor specific environmental documents and preliminary engineering plans. The HSRA believes it is best served by maintaining a minimal state staff and relying upon private engineering firms to provide project management services and engineering and environmental services. It is unclear if this arrangement is working well or is in the best interest of the state.

Because the high-speed rail project, which is estimated to cost over \$40 billion at build-out, is the largest infrastructure project ever undertaken by the state, I believe it is important to have an independent review of the HSRA's systems for managing such a complex enterprise. To this end, I am requesting your committee to authorize the Bureau of State Audits to perform an audit of the HSRA authority. Among the questions that I would like addressed during the audit are following:

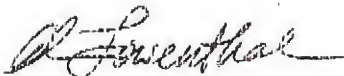
- Has the HSRA established a structure to administer and manage the billions of dollars in bond proceeds authorized by the voters in the November 2008 election that is transparent, provides for accountability, and ensures the cost-effective use of public resources?
- Has the governing board of the HSRA structured itself to provide strong oversight? For example, has the board created a management committee to review

management issues on a scheduled basis? Does the staff report to the board monthly or quarterly on the status of scope, budget and schedule of its management contract and for each of its prime contracts? What was its funding stream for the past three years?

- How does the authority manage and monitor its contracts? For example, how does it determine the need for contract services, select contractors, measure the performance of contractors, and determine the accuracy and reasonableness of contract invoices?
- What were the expenditures of the authority over the last three years? Were the expenditures reasonably linked to advancing the goals and objectives of the authority as well as the intent of the bond initiative?
- Does the authority have a strategic plan? If so, is it meeting its goals and objectives? How does management advance the goals and objectives of the authority and measure its performance?
- Other issues that the Auditor believes are important and germane to this request, should be analyzed.

Thank you for your consideration of this request.

Sincerely,



Alan Lewenthal  
Chair



Bob Huff  
Vice-Chair